

**UPPER PENINSULA REGION OF
LIBRARY COOPERATION, INC.**

**FINANCIAL STATEMENTS AS OF
September 30, 2004**

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

| | | | | |
|---|-------------------------------|---|--|----------------------------|
| Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | Local Government Name <i>Upper Peninsula Region of Library Cooperation Inc</i> | | County <i>Marquette</i> |
| Audit Date <i>9/30/04</i> | Opinion Date <i>1/7/05</i> | Date Accountant Report Submitted to State: <i>2/18/05</i> | | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

| | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations. | | | ✓ |
| Reports on individual federal financial assistance programs (program audits). | | | ✓ |
| Single Audit Reports (ASLGU). | | | ✓ |

| | | | |
|--|--------------------------|--------------------|---------------------|
| Certified Public Accountant (Firm Name) <i>Anderson Tackman & Co PLLC</i> | | | |
| Street Address <i>102 W Washington Suite 109</i> | City <i>Marquette</i> | State <i>MI</i> | ZIP <i>49855</i> |
| Accountant Signature <i>Julieca Hills CPA</i> | | | |

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ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

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GREEN BAY
MILWAUKEE

INDEPENDENT AUDITOR'S REPORT

Upper Peninsula Region of Library Cooperation, Inc.
Executive Board
Marquette, Michigan 49855

We have audited the accompanying financial statements of the governmental activities and each major fund of Upper Peninsula Region of Library Cooperation, Inc. as of and for the year ended September 30, 2004, which collectively comprise the Upper Peninsula Region of Library Cooperation, Inc.'s basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Upper Peninsula Region of Library Cooperation, Inc.'s management. Our responsibility is to express an opinion on these financial statements based upon our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Upper Peninsula Region of Library Cooperation, Inc. as of September 30, 2004, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 7 2005, on our consideration of the Cooperation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. That report can be found on page 22.

As described in Note A to the basic financial statements, the Upper Peninsula Region of Library Cooperation, Inc. adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* and Statement No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus* as of October 1, 2003.

Upper Peninsula Region of Library Cooperation, Inc.
Executive Board
Marquette, Michigan 49855

The Management's Discussion and Analysis on pages 5 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Upper Peninsula Region of Library Cooperation, Inc.'s basic financial statements. The individual fund financial statements listed as Other Supplemental Financial Information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

January 7, 2005

**Upper Peninsula Region of Library Cooperation, Inc.
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)**

Our discussion and analysis of the Upper Peninsula Region of Library Cooperation, Inc.'s financial performance provides an overview of the Cooperation's financial activities for the year ended September 30, 2004. Please read it in conjunction with the financial statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

- The Cooperation's net assets were reported for the first time under GASB 34. As such, no comparisons with prior years will be made. In future years, comparative information will be presented in various schedules throughout the MD&A. Net assets for the Cooperation as a whole were reported at \$261,275. Net assets are comprised of 100% governmental activities.
- During the year, the Cooperation's total expenses were \$269,164, while revenues from all sources totaled \$263,584 resulting in a decrease in net assets of \$5,580.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 9 and 11) provide information about the activities of the Cooperation as a whole and present a longer-term view of the Cooperation finances.

Reporting the Cooperation as a Whole

One of the most important questions asked about the Cooperation's finances is "Is the Cooperation as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Cooperation as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Cooperation's *net assets* and changes in them. You can think of the Cooperation's net assets - the difference between assets and liabilities - as one way to measure the Cooperation's financial health, or *financial position*. Over time, *increases or decreases* in the Cooperation's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Cooperation's operating base and the condition of the Cooperation's capital assets, to assess the *overall financial health* of the Cooperation.

In the Statement of Net Assets and the Statement of Activities, we report all of the Cooperation's activities as governmental activities. Federal and State grants along with contracted revenues finance most of these activities.

Reporting the Cooperation's Most Significant Funds

The Cooperation only reports one fund which is the General Fund. The fund financial statements are reported in combination with the government-wide financial statements beginning on page 9. The General Fund, a governmental fund, is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed short-term view of the Cooperation's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Cooperation's program.

Upper Peninsula Region of Library Cooperation, Inc.
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and Statement of Activities) and governmental funds in reconciliations which follows each of the Statement of Net Assets and Statement of Activities.

Upper Peninsula Region of Library Cooperation, Inc. as a Whole

Table I provides a summary of the Cooperation's net assets as of September 30, 2004.

Table 1
Net Assets

| | 2004 |
|----------------------------|------------------|
| Current and other assets | \$282,482 |
| Capital assets, net | <u>30,329</u> |
| Total Assets | <u>312,811</u> |
| Current liabilities | 48,033 |
| Noncurrent liabilities | <u>3,503</u> |
| Total Liabilities | <u>51,536</u> |
| Net Assets: | |
| Invested in capital assets | 30,329 |
| Unrestricted | <u>230,946</u> |
| Total Net Assets | <u>\$261,275</u> |

Net assets of the Cooperation's governmental activities stood at \$261,275. Unrestricted net assets—the part of net assets that could be used to finance day-to-day activities stood at \$230,946.

The \$230,946 in unrestricted net assets represents the accumulated results of all past years' operations. The results of this year's operations for the Cooperation as a whole are reported in the Statement of Activities (See Table 2), which shows the changes in net assets for fiscal year 2004. Since this is the first year the Cooperation has prepared financial statements following GASB Statement No. 34, revenue and expense comparison to fiscal year 2003 is not available.

Table 2
Changes in Net Assets

| | 2004 |
|--|------------------|
| Program revenues: | |
| Charges for services | \$240,828 |
| Operating grants and contributions | 6,885 |
| General revenues: | |
| Sources not restricted to specific program | - |
| Interest earnings | 2,656 |
| Miscellaneous | <u>13,215</u> |
| Total Revenues | <u>263,584</u> |
| Program Expenses: | |
| Library services | 262,099 |
| Capital outlay | <u>7,065</u> |
| Total Expenses | <u>269,164</u> |
| Change in net assets | (5,580) |
| Net assets, beginning | <u>266,855</u> |
| Net Assets, Ending | <u>\$261,275</u> |

Upper Peninsula Region of Library Cooperation, Inc.
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

The Cooperation's total revenues were \$263,584. The total cost of all programs and services was \$269,164, leaving a decrease in net assets of \$5,580 as a result of fiscal year 2004 operations. The Cooperation's general fund balance had negative operating expenses over revenues. The Board is aware that this fund balance is being reduced each year. The Automated Library System had positive revenues over expenses. The \$5,580 overall decrease in net assets also includes depreciation expense for equipment which was higher than capital purchases this year.

UPPER PENINSULA REGION OF LIBRARY COOPERATION, INC.'S FUNDS

As the Cooperation completed the year, its General Fund (the only governmental fund) reported a fund balance of \$234,449 with a decrease of \$782 from the beginning of the year. This decrease was mainly the result of the Cooperation's general fund negative operating expenses over revenues.

General Fund Budgetary Highlights

Final projected revenues were \$11,250 and final projected expenses were \$19,960 resulting in a projected decrease in the Cooperation's General Fund balance of \$8,710. Actual results were negative \$5,924 operating expenses over revenues, or \$2,786 lower than projected results because of a decrease in continuing education activities and lower bookkeeping costs charged to the General Fund.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2004, the Cooperation had \$30,329 invested in equipment. (See table 3 below)

Table 3
Capital Assets at Year-End

| | 2004 |
|--------------------------|------------------|
| Equipment | \$ 446,034 |
| Accumulated depreciation | <u>(415,705)</u> |
| Totals | <u>\$30,329</u> |

Debt

The Cooperation has no outstanding debt at year-end.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

In preparing the budget for next year, the Board anticipates the Cooperation's General Fund will continue to decrease by a similar amount. The Automated Library System fund balance will be reduced with the purchase of a new client/server integrated library system.

Upper Peninsula Region of Library Cooperation, Inc.
MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)(Continued)

CONTACTING THE COOPERATION FINANCIAL MANAGEMENT

This financial report is designated to provide our customers, investors and creditors with a general overview of the Cooperation's finances and to show the Cooperation's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Cooperation Administrator at Upper Peninsula Region of Library Cooperation, Inc., 1615 Presque Isle Avenue, Marquette, Michigan 49855

UPPER PENINSULA REGION OF LIBRARY COOPERATION, INC.
Statement of Net Assets and
Governmental Funds Balance Sheet
September 30, 2004

| | General Fund | Adjustments | Statement of Net Assets |
|---|-------------------|-------------------|----------------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 267,706 | \$ - | \$ 267,706 |
| Accounts receivable | 14,745 | - | 14,745 |
| Prepaid expenses | 31 | - | 31 |
| Capital assets | - | 446,034 | 446,034 |
| Accumulated depreciation | - | (415,705) | (415,705) |
| TOTAL ASSETS | <u>\$ 282,482</u> | <u>30,329</u> | <u>312,811</u> |
| LIABILITIES | | | |
| Accounts payable | \$ 3,813 | - | 3,813 |
| Due to members | 16,351 | - | 16,351 |
| Deferred revenue | 27,869 | - | 27,869 |
| Long-term liabilities: | | | |
| Accrued sick leave | - | 3,503 | 3,503 |
| TOTAL LIABILITIES | <u>48,033</u> | <u>3,503</u> | <u>51,536</u> |
| FUND BALANCE/NET ASSETS | | | |
| Fund Balance: | | | |
| Designated - UPRLC Continuing Education | - | - | - |
| Designated - Sick leave | 3,503 | (3,503) | - |
| Unreserved and undesignated-UPRLC General | 31,662 | (31,662) | - |
| Unreserved and undesignated-ALS General | 199,284 | (199,284) | - |
| TOTAL FUND BALANCE | <u>234,449</u> | <u>(234,449)</u> | <u>-</u> |
| TOTAL LIABILITIES AND FUND BALANCE | <u>\$ 282,482</u> | | |
| Net Assets: | | | |
| Invested in capital assets, net of related debt | | 30,329 | 30,329 |
| Unrestricted | | 230,946 | 230,946 |
| TOTAL NET ASSETS | | <u>\$ 261,275</u> | <u>\$ 261,275</u> |

The accompanying notes to financial statements are an integral part of this statement.

UPPER PENINSULA REGION OF LIBRARY COOPERATION, INC.
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
September 30, 2004

| | | |
|---|-----------|----------------|
| Total Fund Balances for Governmental Funds | \$ | 234,449 |
|---|-----------|----------------|

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

| | | |
|--|--------------------------|------------------|
| | Cost of capital assets | 446,034 |
| | Accumulated depreciation | <u>(415,705)</u> |
| | | 30,329 |

Long-term liabilities are not due and payable in the current period and are not reported in the funds. Long-term liabilities at year-end consist of accrued sick leave.

(3,503)

NET ASSETS OF GOVERNMENTAL ACTIVITIES

| | | |
|--|-----------|-----------------------|
| | \$ | <u>261,275</u> |
|--|-----------|-----------------------|

The accompanying notes to financial statements are an integral part of this statement.

UPPER PENINSULA REGION OF LIBRARY COOPERATION, INC.
Statement of Activities and
Governmental Fund Revenues, Expenditures,
and Changes in Fund Balance
For the year ended September 30, 2004

| | General Fund | Adjustments | Statement of Activities |
|--------------------------------------|-----------------|-------------|----------------------------|
| Expenditures/Expenses: | | | |
| Library services | \$ 249,998 | \$ 12,101 | \$ 262,099 |
| Capital outlay | 14,368 | (7,303) | 7,065 |
| Total Expenditures/Expenses | 264,366 | 4,798 | 269,164 |
| Program Revenues: | | | |
| Charges for services | 240,828 | - | 240,828 |
| Operating grants and contributions | 6,885 | - | 6,885 |
| Total Program Revenues | 247,713 | - | 247,713 |
| Net Program Expense | | | 21,451 |
| General Revenues: | | | |
| State grants - unrestricted | - | - | - |
| Interest income | 2,656 | - | 2,656 |
| Miscellaneous | 13,215 | - | 13,215 |
| Total General Revenues | 15,871 | - | 15,871 |
| Excess of Revenues over Expenditures | (782) | 782 | - |
| Change in Net Assets | | 5,580 | (5,580) |
| Fund Balance/Net Assets: | | | |
| Beginning of the year | 235,231 | 31,624 | 266,855 |
| End of the year | \$ 234,449 | \$ 37,986 | \$ 261,275 |

The accompanying notes to financial statements are an integral part of this statement.

UPPER PENINSULA REGION OF LIBRARY COOPERATION, INC.
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities
For the year ended September 30, 2004

| | | |
|---|-----------|--------------|
| Net Change in Fund Balances - Total Governmental Funds | \$ | (782) |
|---|-----------|--------------|

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

| | | |
|----------------------|----------------|---------|
| Depreciation expense | 11,426 | |
| Capital outlays | <u>(7,303)</u> | (4,123) |

Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

(675)

Change in Net Assets of Governmental Activities

| | | |
|--|-----------|-----------------------|
| | \$ | <u>(5,580)</u> |
|--|-----------|-----------------------|

The accompanying notes to financial statements are an integral part of this statement.

UPPER PENINSULA REGION OF LIBRARY COOPERATION, INC.
NOTES TO FINANCIAL STATEMENTS

September 30, 2004

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The operations of the Upper Peninsula Region of Library Cooperation, Inc. (the Cooperation) are accounted for with a separate set of self-balancing accounts. The accounting policies of the Cooperation conform to generally accepted accounting principles as applicable to governments and the following is a summary of the more significant policies:

BASIS OF PRESENTATION

During the year the Cooperation adopted Governmental Accounting Standards Board (GASB) Statement No. 34, which substantially revised the financial statement presentation as described below.

Government-Wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the Cooperation as a whole. They include all governmental activities which are generally financed through State sources, charges for services, and other revenues. Equity is classified as net assets and displayed in three components – invested in capital assets, restricted, and unrestricted.

Fund Financial Statements:

The accounts of the Cooperation are organized on the basis of funds. The operations of the Cooperation's only fund, the General Fund, are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. The General Fund is a governmental fund and it is used to account for all financial resources of the Cooperation.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, the governmental activities are presented using the economic resource measurement focus as defined in item (b) below. In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

- a. The General Fund governmental fund utilizes a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on the balance sheet. The operating statement presents sources and uses of available spendable financial resources during a given period. This fund uses fund balance as its measure of available spendable resources at the end of the period.
- b. The government-wide statements utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported. Government-wide fund equity is classified as net assets.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year-end. Expenditures, including capital outlay, are generally recognized when the related fund liability is incurred.

OTHER SIGNIFICANT ACCOUNTING POLICIES

Cash and Equivalents

The Cooperation's cash and cash equivalents as reported in the Statement of Net Assets are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less.

Capital Assets

The accounting and reporting treatment applied to capital assets associated with a fund are determined by its measurement focus. In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

In the government-wide financial statements, all capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. The Cooperation defines capital assets as assets with an initial, individual cost of more than \$1,000.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

| | |
|-----------|--------------|
| Buildings | 50 years |
| Equipment | 3 – 20 years |

The cost of normal maintenance and repairs is charged to operations as incurred. Renewals and betterments are capitalized and depreciated over the remaining useful lives of the related properties.

Compensated Absences

The Cooperation's policies regarding compensated absences permits employees to accumulate earned but unused sick time. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

Revenues

In the government-wide Statement of Activities, revenues are segregated by activity and are classified as either a program revenue or a general revenue. Program revenues include charges to customers or applicants for goods or services, operating grants and contributions and capital grants and contributions. General revenues include all revenues, which do not meet the criteria of program revenues and include revenues such as State funding and interest earnings.

In the governmental fund statements, revenues are reported by source, such as federal sources, state sources and charges for services. Revenues consist of general purpose revenues and restricted revenues. General purpose revenues are available to fund any activity reported in that fund, while restricted revenues are available for a specific purpose or activity and the restrictions are typically required by law or a grantor agency. When both general purpose and restricted revenues are available for use, it is the Cooperation's policy to use the restricted resources first.

Expenses/Expenditures

In the government-wide Statement of Activities, expenses are segregated by activity and are classified by function. In the governmental fund statements, expenditures are classified by character such as current operations and capital outlay.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Implementation of New Accounting Principles

Effective October 1, 2003, the Cooperation implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and – Management's Discussion and Analysis-for State and Local Governments* (GASB No. 34) and Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* (GASB No. 37). Changes to

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

the Cooperation' financial statements as a result of GASB No. 34 and GASB No. 37 are as follows:

- A Management's Discussion and Analysis (MD&A) section providing analysis of the Cooperation's overall financial position and results of operations has been included.
- Government-wide financial statements (Statement of Net Assets and Statement of Activities) prepared using full accrual accounting for all of the Cooperation' activities has been provided.
- Capital assets in the Statement of Net Assets includes assets totaling \$438,731 previously reported in the General Fixed Asset Account Group.
- Debt in the Statement of Net Assets includes debt totaling \$2,828 previously reported in the General Long-Term Debt Account Group.

NOTE B – ORGANIZATIONAL PURPOSE:

The Upper Peninsula Region of Library Cooperation, Inc. was formed for the purpose of facilitating the sharing of information resources among the libraries of the Upper Peninsula, and enable them to interact with other regional and national electronic bibliographical communication systems. Memberships at present consist of 103 libraries.

NOTE C – INCOME TAX STATUS:

The Internal Revenue Service has ruled the Cooperation qualifies under Section 501(c)3 of the Internal Revenue Code and is, therefore, not subject to tax under present income tax laws.

NOTE D - ACCRUED SICK LEAVE:

The entity records on the government-wide Statement of Net Assets the accrued liability arising from accumulated vested sick leave which is payable to entity employees when they separate from employment. The employees are compensated for sick leave on a scale based on years of service with the Cooperation. The entity's sick leave policy provides for up to one-half of an employee's accumulated sick leave hours to be paid to the employee if they have worked with the entity for at least 8 years. For employees with less than 8 years of service, sick leave payable upon separation ranges from 10%-40% depending on the number of years employed with the Cooperation. The Cooperation has a management contract with the Superiorland Library Cooperative that includes personnel. The non-current portion of accumulated sick leave payable as of September 30, 2004 and 2003 is as follows:

| | <u>2004</u> | <u>2003</u> |
|------------|----------------|----------------|
| Sick Leave | <u>\$3,503</u> | <u>\$2,828</u> |

NOTE E - DEFERRED REVENUES/DUE TO MEMBERS:

Certain member libraries participating in the automated library system (ALS) are being assessed operational fees. Monies collected in advance are being recorded as deferred revenues. The purpose of this project is to facilitate the sharing of information resources among the participating libraries.

| | |
|-----------------------------------|--------------|
| Deferred Revenue – Lake Linden | \$ 2,203 |
| Deferred Revenue – Baraga | 1,484 |
| Deferred Revenue – Big Bay de Noc | 2,265 |
| Deferred Revenue – Ojibawa | 204 |
| Deferred Revenue – Peter White | 18,313 |
| Deferred Revenue – Manistique | <u>3,400</u> |

Deferred Revenue at September 30, 2004 \$27,869

Due to Members represents undistributed monies held on behalf of members.

| | |
|--------------------|------------|
| Due to Sault HS | \$ 948 |
| Due to REMC I | 32 |
| Due to Negaunee | 2,681 |
| Due to L'Anse Lib | 1,463 |
| Due to LSSU | 3,703 |
| Due to Calumet | 2,573 |
| Due to Gladstone | 654 |
| Due to Spies | 2,555 |
| Due to Forsyth Twp | 850 |
| Due to Gogebic | 120 |
| Due to Houghton | <u>772</u> |

Due to Members at September 30, 2004 \$16,351

NOTE F - DEPOSITS AND INVESTMENTS:

At year end, the Cooperation's book and bank balances were \$267,706 and \$279,212, respectively, of which \$253,813 was insured by the Federal Deposit Insurance Corporation (FDIC) under Regulation number 330.8. Of the remaining balance of \$25,399 that is uninsured and uncollateralized, \$11,685 represents outstanding checks which have not cleared the bank. This regulation in summary provides that deposits of a governmental unit are insured for the lesser of the amount of the combined deposit or \$100,000 in every financial institution that is not a branch location that is a member of the FDIC in the following deposit accounts:

1. All demand, non-interest bearing accounts in the name of the authorized or statutory custodian of public funds.
2. All savings deposits which include regular passbook, daily interest savings and time certificates of deposit in the name of the governmental unit's custodian.

NOTE F - DEPOSITS AND INVESTMENTS (Continued):

3. Each bookholder is insured pro-rata for the lesser of the amount on deposit in the debt retirement account or \$100,000. Each separate debt issue or debt series is similarly insured.
4. The demand accounts and savings accounts as defined in items 1 and 2 above for those bank accounts in the name of a specific fund when all of the following criteria is applicable.
 - a. The fund is created by a specific State statute.
 - b. The functions of the fund are specified by State statute.
 - c. Money is allocated by State statute for the exclusive use of that fund and statutory function.

Statutory Authority

Act 196, PA 1997, authorized the Cooperation to deposit and invest in:

1. Bonds, securities, and other direct obligations of the United States or its agencies.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of federally insured banks, insured savings and loan associations or credit unions insured by the National Credit Union Administration that are eligible to be depositories of surplus money belonging to the State under section 5 or 6 of Act 105, PA 1855, as amended.
3. Commercial paper rated at time of purchase within the two highest classifications established by not less than two standard rating services. Maturity cannot be more than 270 days after purchase.
4. United States government or Federal agency obligation repurchase
5. Banker's acceptance of United States banks.
6. Mutual funds composed of investments which are legal for direct investments by local units of government in Michigan.
7. Obligation of the State of Michigan or its political subdivisions which are rated investment grade.
8. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Cooperation has no investments at September 30, 2004

Michigan law prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

NOTE G – CAPITAL ASSETS:

Capital asset activity for the year ended September 30, 2004 is as follows:

| | Balance 9-30-03 | Additions | Retirements | Balance 9-30-04 |
|--------------------------------|--------------------|-------------------|-------------|--------------------|
| Asset Cost: | | | | |
| Equipment | <u>\$438,731</u> | <u>7,303</u> | <u>-</u> | <u>\$446,034</u> |
| Total Asset Cost | <u>438,731</u> | <u>7,303</u> | <u>-</u> | <u>446,034</u> |
| Accumulated Depreciation: | | | | |
| Equipment | <u>(404,279)</u> | <u>(11,426)</u> | <u>-</u> | <u>(415,705)</u> |
| Total Accumulated Depreciation | <u>(404,279)</u> | <u>(11,426)</u> | <u>-</u> | <u>(415,705)</u> |
| Net Capital Assets | <u>\$ 34,452</u> | <u>\$ (4,123)</u> | <u>\$ -</u> | <u>\$30,329</u> |

Depreciation expense charged to governmental activities was \$11,426.

NOTE H - LONG-TERM DEBT:

Long-term debt of the Cooperation is as follows:

| | Balance 9-30-03 | Additions | Retirements | Balance 9-30-04 |
|-------------------------|--------------------|---------------|-------------|--------------------|
| General Long-Term Debt: | | | | |
| Sick Leave Payable | <u>\$2,828</u> | <u>\$ 675</u> | <u>\$ -</u> | <u>\$ 3,503</u> |

NOTE I – SINGLE AUDIT ACT:

A single audit as defined by the Single Audit Act of 1996, was not performed as federal financial assistance expended by the Cooperation was less than the \$500,000 that is required for single audit purposes.

OTHER FINANCIAL INFORMATION

UPPER PENINSULA REGION OF LIBRARY COOPERATION, INC.
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance
For the year ended September 30, 2004

| | UPRLC General | Continuing Education UPRLC | Accrued Sick Leave UPRLC | Automated Library Service Unreserved General | Totals |
|---|------------------|----------------------------------|--------------------------------|---|-------------------|
| REVENUES: | | | | | |
| Grants | \$ - | \$ - | \$ - | \$ - | \$ - |
| Membership | 1,699 | - | - | 239,129 | 240,828 |
| Contributions - United Way | 6,885 | - | - | - | 6,885 |
| Interest | - | - | - | 2,656 | 2,656 |
| Universal Service Fund | - | - | - | 5,214 | 5,214 |
| Miscellaneous revenue | 36 | 1,770 | - | 6,195 | 8,001 |
| TOTAL REVENUES | 8,620 | 1,770 | - | 253,194 | 263,584 |
| EXPENDITURES: | | | | | |
| Professional and contractual | 4,160 | 2,000 | - | 137,819 | 143,979 |
| Repairs and maintenance | - | - | - | 73,099 | 73,099 |
| Transportation | - | - | - | 4,279 | 4,279 |
| Office supplies | 176 | 19 | - | 1,942 | 2,137 |
| Computer supplies | - | - | - | 699 | 699 |
| Communications | - | - | - | 8,218 | 8,218 |
| Capital outlay | - | - | - | 14,368 | 14,368 |
| Printing and publishing | - | 412 | - | - | 412 |
| Conferences | - | 2,031 | - | 5,955 | 7,986 |
| Operating supplies | - | - | - | 1,673 | 1,673 |
| Insurance | 630 | - | - | - | 630 |
| Miscellaneous | 6,886 | - | - | - | 6,886 |
| TOTAL EXPENDITURES | 11,852 | 4,462 | - | 248,052 | 264,366 |
| EXCESS REVENUES OVER (UNDER) EXPENDITURES | (3,232) | (2,692) | - | 5,142 | (782) |
| OTHER FINANCING SOURCES (USES): | | | | | |
| Transfers in | - | 1,777 | 675 | - | 2,452 |
| Transfers out | (1,777) | - | - | (675) | (2,452) |
| TOTAL FINANCING SOURCES (USES) | (1,777) | 1,777 | 675 | (675) | - |
| CHANGE IN FUND BALANCES | (5,009) | (915) | 675 | 4,467 | (782) |
| Fund balances, beginning of year | 36,671 | 915 | 2,828 | 194,817 | 235,231 |
| FUND BALANCES, END OF YEAR | \$ 31,662 | \$ - | \$ 3,503 | \$ 199,284 | \$ 234,449 |



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE

WISCONSIN
GREEN BAY
MILWAUKEE

REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Upper Peninsula Region of Library Cooperation, Inc.
Executive Board
Marquette, Michigan

We have audited the financial statements of the governmental activities and each major fund of Upper Peninsula Region of Library Cooperation, Inc. as of and for the year ended September 30, 2004, and have issued our report thereon dated January 7, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Upper Peninsula Region of Library Cooperation, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Upper Peninsula Region of Library Cooperation, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that material misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Upper Peninsula Region of Library Cooperation, Inc.
Executive Board
Marquette, Michigan

This report is intended solely for the information and use of management, others within the organization, the Board and other federal and state audit agencies and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

January 7, 2005